Wells Fargo & Co WFC (XNYS)

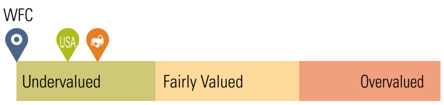
Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★★ 30 Nov 2020 22:18, UTC	27.35 USD 30 Nov 2020	45.00 USD 15 Oct 2020 05:24, UTC	0.61	4.29 30 Nov 2020	1.46 30 Nov 2020	113.08 30 Nov 2020	Banks - Diversified	Poor

Morningstar Pillars

	Analyst	Quantitative
Economic Moat	Wide	Narrow
Valuation	★★★★	Undervalued
Uncertainty	High	Very High
Financial Health	—	Strong

Source: Morningstar Equity Research

Quantitative Valuation



	Current	5-Yr Avg	Sector	Country
Price/Quant Fair Value	0.74	0.89	0.87	0.83
Price/Earnings	73.0	12.7	12.7	20.1
Forward P/E	14.2	—	10.5	13.9
Price/Cash Flow	3.2	78.9	9.5	13.1
Price/Free Cash Flow	3.2	78.9	10.9	19.5
Trailing Dividend Yield%	4.29	3.03	3.64	2.35

Source: Morningstar

Bulls Say

- Wells has a history of prudent underwriting, and we are probably closer than not to a turn in the credit cycle.
- Wells Fargo's retail branch structure, advisory network, product offerings, and share in small and medium-size enterprises is difficult to duplicate, ensuring that the company's competitive advantage is maintained.
- Wells offers the scale advantages of a money center bank without the risks and volatility associated with extensive capital markets operations.

Bears Say

- The fraudulent account scandal will permanently damage Wells Fargo's brand and fracture its long-standing relationships with customers, and the bank still has numerous consent orders outstanding.
- Wells has been on defense while its peers have been on offense, potentially damaging the positioning of Wells' franchises over the long term.
- COVID-19 will be devastating for the economy and likely devastating for the banks; there is no way to know for sure how hard the banks will get hit or how bad things might get.

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Some Thoughts on U.S. Traditional Bank Valuations and Calls Heading into the Final Month of 2020

Business Strategy and Outlook

Eric Compton, CFA, Sr. Eq. Analyst, 14 July 2020

Wells Fargo remains one of the top deposit gatherers in the United States, even after years of negative headlines related to the bank's scandals. Its strategy historically rested on deep customer relationships, sound risk management, and operational excellence. While the operational excellence has been questionable of late, the bank has easily outearned its cost of equity for decades and continues to do so today.

Wells Fargo arguably has the best branch network in the U.S., excels in the middle-market commercial space, has a strong advisory network, and as a result has generally generated more revenue per dollar of assets than most peers over time. We still believe the bank has an attractive lineup of business units and a core group of loyal, longtime customers. Indeed, account closures were well controlled even during the worst of its sales problems, demonstrating that customers are willing to stick with the bank.

This is not to say that Wells does not still face many issues, including getting the asset cap removed, regaining a more positive reputation among potential advisor clients, turning around its asset-management unit, and generally returning to offense instead of constantly being on defense. That said, we do not see a fundamental reason why the bank can't consistently earn returns on tangible equity of 14% longer term, which would warrant a better valuation. How long it will take the bank to rebuild remains a key unknown, a risk investors should consider.

Unlike its major competitors, Wells is not a top player in the capital markets. Its business model is more akin to a regional bank than a money center institution. Wells is also almost entirely U.S. focused. These factors can make the business simpler and results less volatile. For these reasons, we believe Wells deserves a lower cost of capital than its money center peers.

While we think the hiring of Charles Scharf as CEO is a big step in the right direction, we also believe it will be some time before Wells Fargo has fully dealt with all of its issues and has turned around each business segment. In the meantime, the bank is likely to struggle for growth as it rebuilds.

Analyst Note

Eric Compton, CFA, Sr. Eq. Analyst, 30 November 2020

With the end of 2020 approaching, we wanted to provide investors with some brief thoughts on valuations and calls as we head into 2021. Since our first major update on the U.S. banks was published back on April 7, the banks under our coverage have returned roughly 47% on average, as of the close of Nov. 29.

The range of results for individual banks was quite wide, with the worst performer, Wells Fargo, essentially staying flat, while the best performer, Comerica, returned roughly 74%. The sector's returns have generally compared favorably with their relevant indexes. The Morningstar US Markets index has returned 43% over the same time period while the Morningstar US Financial Services Index has returned 37% (compared with 47% for the banks under our coverage). With the strong comeback for the U.S. banks over the last eight to nine months, we believe much of our initial call on the sector has played out, and indeed many names are now within approximately 10% of our fair value estimate, and some names are even trading above our estimate of fair value. The initial call related largely to the risks related to credit and a potential financial crisis.

With the market now agreeing with our view that the banks will be fine this downturn, we think the next rerating higher for banks will likely depend on some sort of rate catalyst, which could take years to play out. As such, we think the sector call has largely played out for now, and we think names with idiosyncratic issues that aren't tied to the sector will have the best chance for outperformance going forward. This primarily leaves us with Citigroup and Wells Fargo, which we think could have room to advance higher, independent of the overall sector.

Economic Moat

Eric Compton, Sr. Eq. Analyst, 15 October 2020

We believe Wells Fargo possesses a wide moat based on

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Close Competitors	Currency (Mil)	Market Cap	TTM Sales	Operating Margin	TTM/PE
JPMorgan Chase & Co JPM	USD	359,322	118,832	0.00	15.38
Bank of America Corp BAC	USD	243,606	87,778	0.00	13.95
Citigroup Inc C	USD	114,654	76,177	0.00	10.75

sustainable cost advantages and switching costs that are consistent with our bank moat framework. Wells Fargo is one of the largest U.S.-based banks by assets and has leading share and operations in many of the key areas in which it competes. It has the largest retail branch network in the U.S. and is one of the leading deposit gatherers in the country. Wells Fargo is also one of the largest U.S. issuers of credit and debit cards (with particular strength in debit), has one of the leading commercial banking franchises (with particular strength in the middle market), has a leading consumer franchise with products across roughly 70 million consumers and small businesses, and also has significant asset and wealth management operations. Further, Wells Fargo has the lowest global systemically important bank surcharge among the big four, giving it a further structural return advantage from having to hold relatively less capital. Given the bank's higher capital levels since the crisis, the increasing importance of scale and scope with changes in technology, and robust fee income, we believe Wells Fargo will consistently earn returns that exceed its 9% cost of equity through the cycle.

We argue that bank moats are derived primarily from two sources: cost advantages and switching costs. We see cost advantages as stemming from three primary factors: a low-cost deposit base, excellent operating efficiency, and conservative underwriting, with regulatory costs being a final factor that must also be considered. Within the operating efficiency bucket, we also see room for economies of scope leading to a cost advantage via lower relative customer acquisition costs. This factor applies primarily to the banks with the largest distributional scale and the largest breadth of products.

Wells Fargo fared better than many of its peers during the great financial crisis. The bank had actively steered away from the most risky mortgage products, and its business model was much less heavily reliant on capital markets and trading activities. The bank's largest exposures came from the 2008 acquisition of Wachovia. Even so, despite the acquisition of a troubled Wachovia and the bank's higher concentration in consumer lending and real estate in general, Wells performed exceptionally, outperforming peers during the period. Overall, we are encouraged by the bank's history of above-average underwriting and risk-taking ability and believe the underwriting culture has probably remained positive since the crisis.

Wells Fargo's operating efficiency has generally been close to or better than peers in most years. The bank has some segments that weigh on the efficiency ratio due to the structural characteristics of those individual business lines, such as asset and wealth management; however, it has still managed to keep its operating efficiency roughly in line with or better than its peers. Recently, legal accruals and other charges have weighed on the bank, but we anticipate these eventually go away, and the bank will return to a more normal operating position. Given the new phase of banking we are entering, where technological changes are occurring faster and are more impactful than ever before and can be deployed across singular, integrated platforms, we see only more advantages for the largest banks when it comes to operating efficiency in the future. With Wells Fargo's tech budget of roughly $9 billion per year, the bank will be able to maintain higher levels of investment while maintaining similar levels of efficiency. Further, with the bank's solid mix of fee income, Wells Fargo will be better insulated if rates decline when compared with smaller regional competitors, as it is less dependent on rate-sensitive net interest income.

Wells Fargo's overall deposit market share is attractive, with some of the highest market share and market coverage among all U.S. banks. Wells Fargo has number-one or -two share in over 40% of the roughly 430 metropolitan statistical areas that it operates in and arguably has the best branch network in the U.S. On a cost advantage basis, we view the bank's deposit base as having a likely chance of being advantaged in the future, based on historical performance, although we acknowledge the bank's historical advantage here has decreased substantially.

Overall, we believe the bank's key advantage come from its scale in certain fixed-cost, fixed-platform businesses, as well as the breadth of products it can offer to clients. This contributes to economies of scale and scope and can create switching costs for customers as they use the bank for more and more products. The bank has consistently been one of the top issuers of debit cards and is also in the top 10 for credit card balances in the U.S. In payments, many of the costs of running the platform are fixed and

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high in nature, leading to the need for scale. This has been borne out in the industry where much consolidation and concentration within the top performers has occurred. The same trend has occurred in the mortgage industry, where Wells remains one of the top bank players, and is also occurring for other consumer-based, mass-market products. Payments and other technology investments bleed over into the corporate payments space, where Wells' strong treasury and payments management platform has helped the bank maintain excellent share in the commercial market, particularly with middle-market business clients.

While all of these segments are strong on their own, we believe there are advantages to combining them under one banking roof. While the cross-selling strategy was poorly implemented in the recent past, we don't believe the overall idea of being able to expand a customer base with more products per customer is fundamentally flawed. The key is healthy implementation and execution. With that in mind, on the consumer side Wells Fargo is able to cross-sell multiple products, providing advantaged pricing to key customer segments (such as through its Portfolio banking program), and spread the overall costs of customer acquisition across more revenue streams. On the commercial side, similar dynamics apply; the bank is able to offer a complete package with national scale that few can compete with, while sending out armies of bankers to existing and new markets in an effort to win new business and maintain local relationships. In Wells Fargo's asset management and wealth management operations, while scale isn't necessarily a huge advantage, we do believe these segments can help contribute to economies of scope. The bank is able to be a one-stop shop, offering investing capabilities, advisory capabilities, and more traditional banking services to the same client base. Further, some of these capabilities have natural overlap, such as advising clients on selling their business and then helping them manage the large wealth inflow. Finally, the largest banks will be able to spend the most on technology and will have access to unique data on the largest client bases, and Wells Fargo is no exception. We believe Wells' ability for higher investment in tech platforms that can scale, as well as its access to customer data on millions of households, should bolster the bank's advantages over the longer run.

From a systemic standpoint, we believe the U.S. banking system has improved over the last decade, as capital levels supporting the banking system are at all-time highs. Further, regulation has become considerably stronger in the past several years. The U.S. banking market is quite fragmented, and Wells Fargo must compete with a variety of regional and community banks as well as large money center institutions, although this fragmentation has gradually decreased since the 1990s. While we view the banking sector as intensely competitive, the largest banks by asset size have generally been able to earn higher returns on equity for the last several decades and still do so today. Our outlook is generally positive from a macroeconomic and political standpoint for the U.S. banking system, as the U.S. is still the world's leading democracy, has increased GDP at a steady pace for years, and maintains the world's reserve currency, all of which contribute to banking stability.

Wells Fargo is large enough to be considered a global systemically important bank, although the bank has the lowest GSIB surcharge of the big four, at 2%, which supports the view that Wells Fargo faces some of the lower regulatory requirements and costs among the big four. The bank is also large enough to be subject to the Federal Reserve's annual stress tests, as well as a host of other regulatory requirements, and we don't see any massive regulatory relief coming for the large money center banks. The stringent capital requirements that the largest banks are held to give us some reassurance that these banks will be able to weather the next economic downturn.

Fair Value & Profit Drivers

Eric Compton, Sr. Eq. Analyst, 15 October 2020

After updating our projections for the latest quarterly results, we have decreased our fair value estimate to $45 per share from $46. This incorporates a 50% probability that Democrat Joe Biden is elected and his tax plan is implemented. This represents 1.4 times reported tangible book value per share as of September.

In our base case, we do not have the bank breaking the asset cap barrier until after 2022, and as a result we have minimal earning asset growth until then. We project that net interest margins will decline in 2020 and again in 2021 as rate cuts weigh on the bank and the Fed does not raise rates for years. We have NIMs staying stuck below what they previously were, due to changes in the balance sheet which affect asset yields. Fee income will be volatile in the short term due to the result of divestitures, and the

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economic slowdown due to COVID-19, and we project fee income dropping in 2020 and 2021, followed by a more stable low-single-digit pace in the later years of our forecast. We note that the mortgage fees will likely never return to their previous levels for Wells. Overall, this leads to a CAGR for fee revenue of 1% over the next 10 years.

A key part of our thesis is that Wells will begin cutting expenses in 2021 and 2022, as regulatory and compliance related expense pressures begin to ease. With net interest margins at such a low level, the efficiency ratio will be pressured, but a combination of expense cuts and some normalization for NIMs can, we think, eventually bring the efficiency ratio back to 60% (missing management's previous target range of 55%-59%).

Credit losses will be one of the key variables as COVID-19 develops. We currently project that the large reserve builds are now behind Wells.

Our base-case expectations produce a terminal return on tangible equity of 13%, in excess of the bank's 9% cost of equity.

Risk & Uncertainty

Eric Compton, Sr. Eq. Analyst, 15 October 2020

An investment in Wells Fargo entails a large amount of regulatory and macroeconomic risk. For Wells, the cost of compliance is high, the bank is large and complex, and the company is clearly a prime target of regulators seeking fines and litigants seeking compensation for alleged misdeeds.

The macroeconomic backdrop is another primary risk for any bank. Wells Fargo's profitability will largely be determined by the interest-rate cycle and the effects of credit and debt cycles, all of which are not under management's control. Most lines of business at Wells are economically sensitive. In addition, the bank is subject to the Federal Reserve's annual stress test. Depending on the results of that review, Wells may be subject to capital return restrictions. If it were required to hold more capital, returns on equity could be affected. The bank has performed well on the most recent tests, and we would be surprised to see issues here in the future.

There is also higher operational risk. Banking is a business of trust, and damage to the bank's brand could result in the permanent loss of customers or force the bank to compete harder on price. The issues with the bank's regulators are also not over, with no obvious ending date. Given the increased uncertainty around the timing of a turnaround at Wells and the fact that the longer this goes on, the more likely it is that a permanent impairment of earnings power has occurred, we have raised our uncertainty rating for Wells Fargo to high.

Due to the fact that Wells Fargo is more like a large regional bank, rather than an international money center bank, we normally assign the bank a medium uncertainty rating. However, due to the bank's inability to deal with its regulatory issues, which increases the uncertainty around future profitability, we are currently assigning the bank a high uncertainty rating. We are currently maintaining this rating during the COVID-19 outbreak, as well.

Stewardship

Eric Compton, Sr. Eq. Analyst, 14 July 2020

We rate Wells Fargo's stewardship as Poor. The bank has struggled mightily over the past several years, underperforming peers, and based on the details released in the House Financial Services Committee reports, progress has not been good behind the scenes. We originally held off assigning the bank a Poor rating, given all the personnel changes among the board and management (almost all the old management team and board are now gone), as well the internal reforms that were supposed to be occurring; however, the details of the reports suggest that progress has been poor, and even new board members were as bad as the previous ones. Therefore, we believe a Poor rating is now appropriate.

We have not yet come across information that suggests that CEO Charles Scharf is doing a poor job, and he may yet be the one to turn things around at Wells; but, until he and his new slate of managers prove to us that stewardship at Wells Fargo has improved, we will maintain our Poor stewardship rating.

The issues at Wells over the past several years are many. The bank submitted unsatisfactory resolution plans to the Fed multiple times, has been unable to get past its multiple scandals, and is still under an unprecedented asset cap from the Fed. As CEO, John Stumpf did a poor job of maintaining a proper sales culture in the bank, and with a poor performance in front of Congress, it was the right move for him to step down in 2016. Tim Sloan faced a

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difficult tenure as Stumpf's successor, and it does not appear he made much progress with cleaning up the bank while he was in charge.

We believe it is fair to place at least some responsibility for the bank's previous sales practices--and living will deficiencies--on Sloan, as he had worked as the bank's COO, CFO, and chief administrative officer during years when sales abuses were occurring on some level. It also appears that little progress was made under Sloan's watch on reforming the bank, with Sloan often presenting a misleading picture to the public about what was actually going on. For example, guiding that the asset cap would probably be removed at the beginning of 2019 now appears laughable.

We hope that Scharf will bring a more realistic and effective tenure of management for Wells, and indeed, Scharf has made a number of notable hires, changing the reporting structure, and has promised that there are many opportunities for cost-cutting. Time will tell if Scharf will be the one to turn Wells around.

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Analyst Notes Archive

FOMC Maintains Rates at Zero; Don't Expect Rate Hikes Anytime Soon

Eric Compton, Sr. Eq. Analyst, 10 June 2020

The Federal Open Market Committee issued its latest statement on June 10 and, unsurprisingly, held the federal-funds rate at 0%-0.25% with a unanimous vote. There really is no debate that rates ought to be at zero for now, unless you're in the negative-rate camp. Instead, the real debate is how long rates will stay at zero. This is a key consideration for investors that will affect valuations and profitability timing for rate-sensitive sectors, including the banks. Future rate hikes will inevitably depend to some degree on the timing and magnitude of an economic recovery, which itself will be hard to predict. But we think the conversation is increasingly shifting away from the timing of a generalized economic recovery and is moving instead toward inflation targeting and reaching full employment, both of which could delay rate hikes until long after even a robust economic expansion. As such, we will be adjusting our rate forecast for the U.S. banks, which will lower net interest income in the medium-term years of our forecasts, as we previously expected rate hikes in late 2021 and 2022, which now seems increasingly unlikely. We still expect that rates will eventually rise and that the current adjustments will cause a low-single-digit adjustment to our fair value estimates.

Stress Test Results Largely Confirm Our Overall Banking Sector Thesis, but Some Dividend Cuts Likely

Eric Compton, Sr. Eq. Analyst, 25 June 2020

The Federal Reserve has released the results of its annual stress tests. Our key takeaway is that the banking system appears to be well-capitalized, even in scenarios that are materially worse than the typical "severely adverse" scenario that the Fed normally uses. This supports our overall thesis, which is that the banks are much better positioned and will be much harder to break this time around. Our base case has been that most banks will be able to maintain their dividends, and we think the latest disclosures support this thesis as well. Based on the released results, we calculate that a select few banks may need to cut their dividends after third-quarter results, including CapitalOne (we think a 100% cut), Wells Fargo (we think less than 100%), and Comerica (we think less than 100%); however, we think the majority will be fine. Banks will have to resubmit their capital plans later in the year, and the Fed has said it will continue to monitor the economic downturn as it develops, so this will remain an active situation with more updates and changes to come. There is still a high degree of uncertainty around the future economic state and what future credit costs will be, but we are generally encouraged by today's results.

Pain Continues for Wells Fargo in Q2; Common Equity Tier 1 Holding Up, Big Expense Cuts Coming

Eric Compton, Sr. Eq. Analyst, 14 July 2020

The pain continued for Wells Fargo in the second quarter with a net loss of $2.4 billion, or $0.66 per share. The bank barely eked out a profit in the first quarter and was unable to do so in the second. On the surface, the main driver was again provisioning, with the bank recording provisioning expense more than double that of the first quarter. This was arguably above what anyone expected. Peers generally saw an increase in provisioning expense of roughly 12%-25% compared with the first quarter, far below what Wells recorded. The bank also cut its dividend, as expected. We previously thought the bank would cut the dividend but wouldn't be forced to cut to $0, and Wells did announce a cut to its quarterly dividend from $0.51 to $0.10. However, while management implied that it doesn't think it will have to cut the dividend further, we warn investors that this is not a given; we now think there is a material chance the dividend could be cut to $0. It will largely depend on how much Wells has to record in provisioning expense in the third and fourth quarters.

Smaller capital markets and trading operations and an inability to grow the balance sheet due are hurting results for Wells. While expected limited balance sheet growth, Wells' net interest margins are deteriorating more than we originally anticipated. If there were any positives, it is that the bank's common equity Tier 1 ratio is holding up well, increasing to 10.9% in the second quarter, and the bank hasn't destroyed massive amounts of tangible book value per share, down only 5% year over year. After updating our projections for the latest results, we lower our fair value estimate to $46 from $50. This is partially due to updated rate assumptions, which took $1 off our valuation, but the largest factor was our incorporation of a 50% chance that Joe Biden is elected president and his proposed tax plan is implemented, which would raise the corporate tax rate to 28% from 21%.

Unsurprisingly, FOMC Maintains Rates at Zero,

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Policy Update Could Be Next Real Change

Eric Compton, Sr. Eq. Analyst, 29 July 2020

The Federal Open Market Committee issued its latest statement on July 29 and, unsurprisingly, held the federal-funds rate at 0.0%-0.25% with a unanimous vote. Rates have been at zero since mid-March. Again, there really is no debate that rates ought to be at zero for now, unless you're in the negative-rate camp, and the Fed has consistently said it is not seriously considering negative rates as a policy tool. The rate decision was not surprising, and there really wasn't much else of note in the latest release. After a series of highly anticipated FOMC meetings and statements, this release certainly felt much less dramatic and appeared to simply be a continuation of a holding pattern. We expect that rates will likely remain at zero for years, as was signaled at the last FOMC meeting. We are leaving our current rate forecasts within our bank models unchanged, which currently project that the first rate hike will occur in 2023.

Federal Open Market Committee Maintains Rates at Zero, Doesn't Expect First Hike Until After 2023

Eric Compton, Sr. Eq. Analyst, 16 September 2020

The Federal Open Market Committee issued its latest statement on Sept. 16 and, unsurprisingly, held the federal-funds rate at 0.0%-0.25%. The vote was technically not unanimous, with Robert Kaplan (Dallas Fed) and Neel Kashkari (Minneapolis Fed) voting against the action, however, their votes weren't against holding the federal-funds rate at the current level but rather were votes for slightly different nuances to the overall statement. All things considered, there remains no debate that rates ought to be at zero for now. As we had talked about in our last note regarding the FOMC (July 29), and as had been made official in the Fed's official updates to its policy statements (released Aug. 27), the FOMC updated the language in its latest release, which should largely allow rates to remain lower for longer. Specifically, the FOMC now states that, "with inflation running persistently below this longer run [2%] goal, the Committee will aim to achieve inflation moderately above 2 percent for some time so that inflation averages 2 percent over time." The FOMC also stated that it expects rates at zero will be maintained until, "labor market conditions have reached levels consistent with the Committee's assessments of maximum employment and inflation has risen to 2 percent and is on track to moderately exceed 2 percent for some time." This leaves the FOMC plenty of room to maintain rates at zero for some time, and the committee will not be likely to preemptively raise rates to combat inflation, which had been a strategy in the past. This also gives the committee plenty of room to define "maximum employment" in ways that again allow for rates to stay lower for longer.

Disappointing Net Interest Income, Customer Charges, Restructuring Charges for Wells Fargo in Q3

Eric Compton, Sr. Eq. Analyst, 15 October 2020

Wide-moat rated Wells Fargo reported adjusted third quarter 2020 earnings that were technically ahead of S&P Market Intelligence consensus of $0.48, with EPS coming in at $0.73. However, there were a number of adjustable items within this number, and net interest income was once again disappointing. On a GAAP basis, EPS was $0.42, affected by $718 million in restructuring charges and $961 million in customer remediation. The return on tangible common equity in the quarter was roughly 5%. Wells continues to get hit harder than peers on its net interest income, partially due to its NIM sensitivity, with NIMs down roughly 53 basis points year over year, but also due to the asset cap and the bank's inability to offset NIM pressure with balance sheet growth. This dynamic should continue for the foreseeable future. Notably, management had to downgrade its full year net interest income guidance once again, from a previous range of $41 billion-$42 billion, down to $40 billion for 2020. Management gave a range of flat to down a single digit percentage for NII growth in 2021, and we tend to agree more with a mid-single-digit decline. With net interest income down 19% year over year, and smaller relative trading and investment banking operations, Wells simply lacks some of the offsets the other money center banks possess. We're hoping that fourth quarter results will show a bottom for net interest income, and that a gradual recovery in fees will continue for Wells. Regarding expenses, management said it will give more details on the next call. We're hoping a more normalized run-rate of $54 billion-$55 billion may eventually materialize, but there is admittedly a lot of uncertainty here, and we wouldn't be surprised to see more restructuring charges in the meantime, which will help in the longer run but push up expenses in the short run. After updating our projections with the latest results, we are decreasing our fair value estimate to $45 per share from $46.

No Surprises From the FOMC in November, and We Don't Expect Much Excitement for a While

Wells Fargo & Co WFC (XNYS)

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Eric Compton, Sr. Eq. Analyst, 05 November 2020

The Federal Open Market Committee issued its latest statement Nov. 5 and, unsurprisingly, held the federal-funds rate at 0.0%-0.25%. The vote was unanimous, with Robert Kaplan (Dallas Fed) voting in favor this time around, Mary Daly (San Francisco Fed) voting as an alternate, and Neel Kashkari (Minneapolis Fed) not voting. As was the case with the last meeting, and as will likely be the case for some time, there remains no debate that rates ought to be at zero for now. There were essentially no changes in the language of the release, with the FOMC keeping all of the language related to its updated inflation policy and pointing to a lower-for-longer interest-rate environment. No new projections were released for this meeting.

We anticipate that the FOMC will be in a holding pattern for some time, with the meetings and releases likely to be relatively mundane for a while. Instead, the Federal Reserve will have to make any more tweaks through its other tools, such as lending facilities or securities purchases. With the Fed essentially doing what it can on the monetary side of the equation, the biggest changes relating to support for the economy will likely have to come from Congress, with more fiscal support remaining the most obvious tool.

We have already updated our U.S. traditional bank models to reflect rates staying lower for longer. We now forecast that rates will stay near zero through 2024, with a gradual increase through 2027, at which point we anticipate the federal-funds rate normalizing near 2.5%. The current members of the Federal Reserve Board anticipated that the longer-run level for the federal-funds rate will be 2.5% in their most recently released projections. As we anticipated, these changes did not have a large effect on valuations of the banks we cover, generally affecting our fair value estimates by a low-single-digit percentage. What is more important is that rates do rise eventually.

Some Thoughts on U.S. Traditional Bank Valuations and Calls Heading into the Final Month of 2020

Eric Compton, Sr. Eq. Analyst, 30 November 2020

With the end of 2020 approaching, we wanted to provide investors with some brief thoughts on valuations and calls as we head into 2021. Since our first major update on the U.S. banks was published back on April 7, the banks under our coverage have returned roughly 47% on average, as of the close of Nov. 29.

The range of results for individual banks was quite wide, with the worst performer, Wells Fargo, essentially staying flat, while the best performer, Comerica, returned roughly 74%. The sector's returns have generally compared favorably with their relevant indexes. The Morningstar US Markets index has returned 43% over the same time period while the Morningstar US Financial Services Index has returned 37% (compared with 47% for the banks under our coverage). With the strong comeback for the U.S. banks over the last eight to nine months, we believe much of our initial call on the sector has played out, and indeed many names are now within approximately 10% of our fair value estimate, and some names are even trading above our estimate of fair value. The initial call related largely to the risks related to credit and a potential financial crisis.

With the market now agreeing with our view that the banks will be fine this downturn, we think the next rerating higher for banks will likely depend on some sort of rate catalyst, which could take years to play out. As such, we think the sector call has largely played out for now, and we think names with idiosyncratic issues that aren't tied to the sector will have the best chance for outperformance going forward. This primarily leaves us with Citigroup and Wells Fargo, which we think could have room to advance higher, independent of the overall sector.

Quantitative Equity Report | Release: 30 Nov 2020, 17:06, GMT-06:00 | Reporting Currency: USD | Trading Currency: USD | Exchange:XNYS Page 9 of 16

Wells Fargo & Co WFC ★★★Q 30 Nov 2020 02:00 UTC

Last Close	Fair ValueQ	Market Cap	Sector	Industry	Country of Domicile
30 Nov 2020	30 Nov 2020 02:00 UTC	30 Nov 2020			
27.35	38.43	117.7 Bil	Financial Services	Banks - Diversified	USA United States

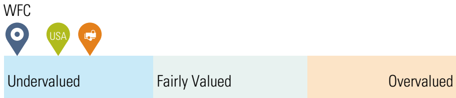
There is no one analyst in which a Quantitative Fair Value Estimate and Quantitative Star Rating are attributed to; however, Mr. Lee Davidson, Head of Quantitative Research for Morningstar, Inc., is responsible for overseeing the methodology that supports the quantitative fair value. As an employee of Morningstar, Inc., Mr. Davidson is guided by Morningstar, Inc.'s Code of Ethics and Personal Securities Trading Policy in carrying out his responsibilities. For information regarding Conflicts of Interests, visit http://global.morningstar.com/equitydisclosures

Company Profile

Wells Fargo is one of the largest banks in the United States, with approximately $1.9 trillion in balance sheet assets. The company is split into three segments for reporting purposes: community banking; wholesale banking; and wealth and investment management. The community banking segment serves consumers and small businesses with products including deposit accounts, credit and debit cards, and student, mortgage, and home equity loans. Wholesale banking includes corporate and commercial real estate lending, asset-

Quantitative Scores

		Scores All	Rel Sector	Rel Country
Quantitative Moat	Narrow	72	60	72
Valuation	Undervalued	80	77	73
Quantitative Uncertainty	Very High	45	55	63
Financial Health	Strong	97	59	97



Source: Morningstar Equity Research

Valuation

	Current	5-Yr Avg	Sector Median	Country Median
Price/Quant Fair Value	0.74	0.89	0.87	0.83
Price/Earnings	73.0	12.7	12.7	20.1
Forward P/E	14.2	—	10.5	13.9
Price/Cash Flow	3.2	78.9	9.5	13.1
Price/Free Cash Flow	3.2	78.9	10.9	19.5
Trailing Dividend Yield %	4.29	3.03	3.64	2.35
Price/Book	0.7	1.5	1.1	2.4
Price/Sales	1.6	3.1	2.9	2.4

Profitability

	Current	5-Yr Avg	Sector Median	Country Median
Return on Equity %	1.0	11.7	10.1	12.9
Return on Assets %	0.1	1.1	1.4	5.2
Revenue/Employee (K)	282.6	326.4	762.0	325.9

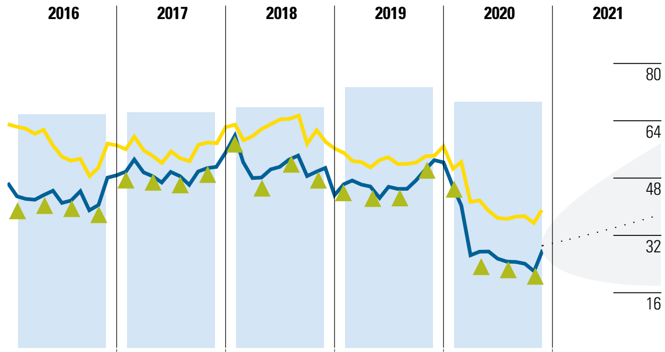
Financial Health

	Current	5-Yr Avg	Sector Median	Country Median
Distance to Default	0.8	0.9	0.8	0.5
Solvency Score	—	—	503.7	552.4
Assets/Equity	10.3	9.7	3.7	1.7
Long-Term Debt/Equity	1.2	1.2	0.3	0.4

Growth Per Share

	1-Year	3-Year	5-Year	10-Year
Revenue %	-1.6	-1.2	0.7	-0.4
Operating Income %	—	—	—	—
Earnings %	-5.4	0.5	-0.3	8.8
Dividends %	17.1	8.2	7.3	14.6
Book Value %	6.1	4.7	4.6	7.2
Stock Total Return %	-47.5	-17.1	-8.6	4.1

Price vs. Quantitative Fair Value



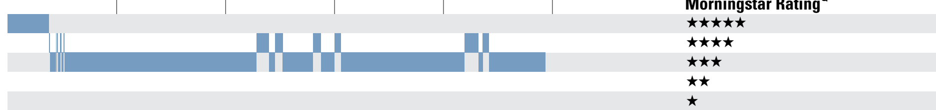
- Quantitative Fair Value Estimate
- Total Return
- Sales/Share
- Forecast Range
- Forcasted Price
- Dividend
- Split

Momentum:	Negative
Standard Deviation:	27.77
Liquidity:	High

20.76	52-Wk	54.56
20.76	5-Yr	66.31

2016	2017	2018	2019	2020	2021	
4.2	12.9	-21.3	20.9	-46.9		Total Return %
-8.3	-8.6	-16.3	-10.3	-63.4		+/– Market (Morningstar US Index)
2.75	2.54	3.56	3.57	4.29		Trailing Dividend Yield %
2.76	2.57	3.73	3.79	1.41		Forward Dividend Yield %
13.7	15.7	10.9	11.6	73.0		Price/Earnings
3.2	3.5	2.6	2.8	1.6		Price/Revenue

Morningstar RatingQ

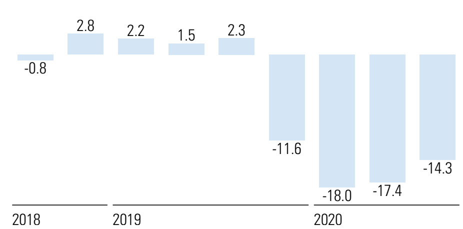


2015	2016	2017	2018	2019	TTM	Financials (Fiscal Year in Mil)
83,827	87,388	87,121	86,408	85,063	74,275	Revenue
2.3	4.2	-0.3	-0.8	-1.6	-12.7	% Change
—	—	—	—	—	—	Operating Income
—	—	—	—	—	—	% Change
22,894	21,938	22,183	22,393	19,549	3,182	Net Income
14,772	169	18,722	36,073	6,730	37,239	Operating Cash Flow
—	—	—	—	—	—	Capital Spending
14,772	169	18,722	36,073	6,730	37,239	Free Cash Flow
17.6	0.2	21.5	41.7	7.9	50.1	% Sales
4.12	3.99	4.10	4.28	4.05	0.39	EPS
0.5	-3.2	2.8	4.4	-5.4	-90.4	% Change
4.33	-1.86	4.45	4.37	2.06	7.93	Free Cash Flow/Share
1.48	1.52	1.54	1.64	1.92	1.63	Dividends/Share
33.51	35.57	36.87	38.26	41.54	38.72	Book Value/Share
5,092	5,016	4,892	4,581	4,134	4,134	Shares Outstanding (Mil)
						Profitability
12.8	11.8	11.5	11.7	10.6	1.0	Return on Equity %
1.2	1.1	1.1	1.1	0.9	0.1	Return on Assets %
25.6	23.3	23.6	23.9	21.1	2.2	Net Margin %
0.05	0.05	0.04	0.04	0.04	0.04	Asset Turnover
10.5	11.0	10.7	11.0	11.6	12.0	Financial Leverage
—	—	—	—	—	—	Gross Margin %
—	—	—	—	—	—	Operating Margin %
199,528	255,070	224,981	229,008	228,159	215,711	Long-Term Debt
192,998	199,581	206,936	196,166	187,146	181,173	Total Equity
7.0	5.7	4.7	4.7	4.2	3.4	Fixed Asset Turns

Quarterly Revenue & EPS

Revenue (Mil)	Mar	Jun	Sep	Dec	Total
2020	17,717.0	17,836.0	18,862.0	—	—
2019	21,609.0	21,584.0	22,010.0	19,860.0	85,063.0
2018	21,151.0	21,258.0	21,525.0	22,474.0	86,408.0
2017	21,599.0	21,981.0	21,688.0	21,853.0	87,121.0
Earnings Per Share ()					
2020	0.01	-0.66	0.42	—	—
2019	1.20	1.30	0.92	0.60	4.05
2018	0.96	0.98	1.13	1.21	4.28
2017	1.00	1.07	0.84	1.16	4.10

Revenue Growth Year On Year %



Research Methodology for Valuing Companies

Qualitative Equity Research Overview
At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. We believe this bottom-up, long-term, fundamentally based approach allows our analysts to focus on long-term business drivers, which have the greatest valuation impact, rather than short-term market noise.

Morningstar's equity research group ("we," "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at an uncertainty-adjusted discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our single-point star rating.

1. Economic Moat
The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define excess economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

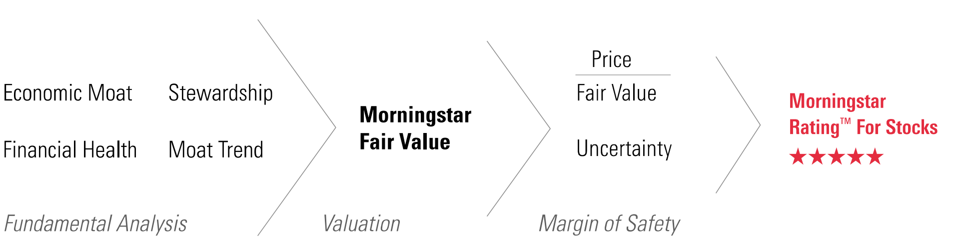
Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

To assess the direction of the underlying competitive advantages, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

All the moat and moat trend ratings undergo periodic review and any changes must be approved by the Morningstar Economic Moat Committee, comprised of senior members of Morningstar's equity research department.

2. Estimated Fair Value
Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Morningstar Research Methodology for Valuing Companies



Our model is divided into three distinct stages:

Stage I: Explicit Forecast
In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working-capital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes, or EBI, and the net new investment, or NNI, to derive our annual free cash flow forecast.

Stage II: Fade
The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital, or RONIC, and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until the perpetuity stage is reached. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity
Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total present value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term market-value weights.

Research Methodology for Valuing Companies

3. Uncertainty Around That Fair Value Estimate
Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the fair value estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

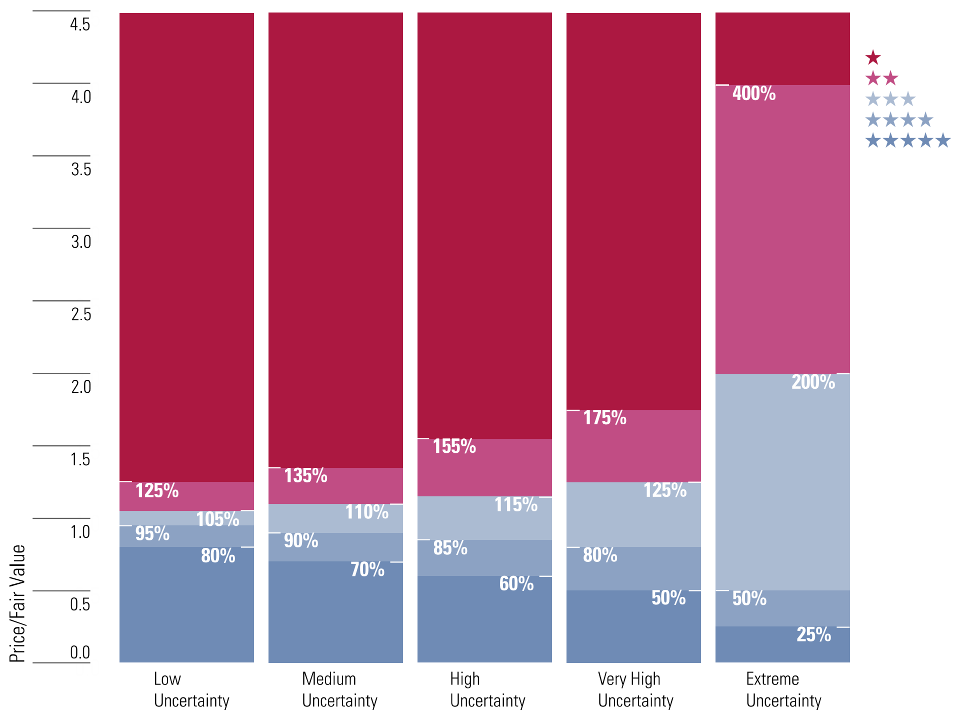
Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

- Low–margin of safety for 5-star rating is a 20% discount and for 1-star rating is 25% premium.
- Medium–margin of safety for 5-star rating is a 30% discount and for 1-star rating is 35% premium.
- High–margin of safety for 5-star rating is a 40% discount and for 1-star rating is 55% premium.
- Very High–margin of safety for 5-star rating is a 50% discount and for 1-star rating is 75% premium.
- Extreme–margin of safety for 5-star rating is a 75% discount and for 1-star rating is 300% premium.

4. Market Price
The market prices used in this analysis and noted in the report come from exchange on which the stock is listed, which we believe is a reliable source.

For more details about our methodology, please go to https://shareholders.morningstar.com.

Morningstar Equity Research Star Rating Methodology



Morningstar Star Rating for Stocks
Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open.
Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time, generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

★★★★★ We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. The current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

★★★★ We believe appreciation beyond a fair risk-adjusted return is likely.

★★★ Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

★★ We believe investors are likely to receive a less than fair risk-adjusted return.

★ Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. The market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Research Methodology for Valuing Companies

Other Definitions

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Stewardship Rating: Represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

- Undervalued: Last Price is below Morningstar's quantitative fair value estimate.
- Fairly Valued: Last Price is in line with Morningstar's quantitative fair value estimate.
- Overvalued: Last Price is above Morningstar's quantitative fair value estimate.

Risk Warning
Please note that investments in securities are subject to market and other risks and there is no assurance or guarantee that the intended investment objectives will be achieved. Past performance of a security may or may not be sustained in future and is no indication of future performance. A security investment return and an investor's principal value will fluctuate so that, when redeemed, an investor's shares may be worth more or less than their original cost. A security's current investment performance may be lower or higher than the investment performance noted within the report. Morningstar's Uncertainty Rating serves as a useful data point with respect to sensitivity analysis of the assumptions used in our determining a fair value price.

Quantitative Equity Reports Overview
The quantitative report on equities consists of data, statistics and quantitative equity ratings on equity securities. Morningstar, Inc.'s quantitative equity ratings are forward looking and are generated by a statistical model that is based on Morningstar Inc.'s analyst-driven equity ratings and quantitative statistics. Given the nature of the quantitative report and the quantitative ratings, there is no one analyst in which a given report is attributed to; however, Mr. Lee Davidson, Head of Quantitative Research for Morningstar, Inc., is responsible for overseeing the methodology that supports the quantitative equity ratings used in this report. As an employee of Morningstar, Inc., Mr. Davidson is guided by Morningstar, Inc.'s Code of Ethics and Personal Securities Trading Policy in carrying out his responsibilities.

Quantitative Equity Ratings
Morningstar's quantitative equity ratings consist of:
(i) Quantitative Fair Value Estimate
(ii) Quantitative Star Rating
(iii) Quantitative Uncertainty
(iv) Quantitative Economic Moat
(v) Quantitative Financial Health
(collectively the "Quantitative Ratings").

The Quantitative Ratings are calculated daily and derived from the analyst-driven ratings of a company's peers as determined by statistical algorithms. Morningstar, Inc. (""Morningstar," "we," "our") calculates Quantitative Ratings for companies whether it already provides analyst ratings and qualitative coverage. In some cases, the Quantitative Ratings may differ from the analyst ratings because a company's analyst-driven ratings can significantly differ from other companies in its peer group.

Quantitative Fair Value Estimate: Intended to represent Morningstar's estimate of the per share dollar amount that a company's equity is worth today. Morningstar calculates the quantitative fair value estimate using a statistical model derived from the fair value estimate Morningstar's equity analysts assign to companies. Please go to https://shareholders.morningstar.com for information about fair value estimates Morningstar's equity analysts assign to companies.

Quantitative Economic Moat: Intended to describe the strength of a firm's competitive position. It is calculated using an algorithm designed to predict the Economic Moat rating a Morningstar analyst would assign to the stock. The rating is expressed as Narrow, Wide, or None.

- Narrow: assigned when the probability of a stock receiving a "Wide Moat" rating by an analyst is greater than 70% but less than 99%.
- Wide: assigned when the probability of a stock receiving a "Wide Moat" rating by an analyst is greater than 99%.
- None: assigned when the probability of an analyst receiving a "Wide Moat" rating by an analyst is less than 70%.

Quantitative Star Rating: Intended to be the summary rating based on the combination of our Quantitative Fair Value Estimate, current market price, and the Quantitative Uncertainty Rating. The rating is expressed as 1-Star, 2-Star, 3-Star, 4-Star, and 5-Star.

★: the stock is overvalued with a reasonable margin of safety.
Log (Quant FVE/Price)<–1*Quantitative Uncertainty

★★: the stock is somewhat overvalued.
Log (Quant FVE/Price) between (–1*Quantitative Uncertainty, –0.5*Quantitative Uncertainty)

★★★: the stock is approximately fairly valued.
Log (Quant FVE/Price) between (–0.5*Quantitative Uncertainty, 0.5*Quantitative Uncertainty)

★★★★: the stock is somewhat undervalued.
Log (Quant FVE/Price) between (0.5*Quantitative Uncertainty, 1*Quantitative Uncertainty)

★★★★★: the stock is undervalued with a reasonable margin of safety. Log (Quant FVE/Price) >1*Quantitative Uncertainty

Quantitative Uncertainty: Intended to represent Morningstar's level of uncertainty about the accuracy of the quantitative fair value estimate. Generally, the lower the quantitative Uncertainty, the narrower the potential range of outcomes for that particular company. The rating is expressed as Low, Medium, High, Very High, and Extreme.

- Low: the interquartile range for possible fair values is less than 10%.
- Medium: the interquartile range for possible fair values is less than 15% but greater than 10%.
- High: the interquartile range for possible fair values is less than 35% but greater than 15%.
- Very High: the interquartile range for possible fair values is less than 80% but greater than 35%.
- Extreme: the interquartile range for possible fair values is greater than 80%.

Quantitative Financial Health: Intended to reflect the probability that a firm will face financial distress in the near future. The calculation uses a predictive model designed to anticipate when a company may default on its financial obligations. The rating is expressed as Weak, Moderate, and Strong.

- Weak: assigned when Quantitative Financial Health <0.2
- Moderate: assigned when Quantitative Financial Health is between 0.2 and 0.7
- Strong: assigned when Quantitative Financial Health >0.7

Research Methodology for Valuing Companies

Other Definitions

Last Close: Price of the stock as of the close of the market of the last trading day before date of the report.

Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

- ► Undervalued: Last Price is below Morningstar's quantitative fair value estimate.
- ► Fairly Valued: Last Price is in line with Morningstar's quantitative fair value estimate.
- ► Overvalued: Last Price is above Morningstar's quantitative fair value estimate.

This Report has not been made available to the issuer of the security prior to publication.

Risk Warning

Please note that investments in securities are subject to market and other risks and there is no assurance or guarantee that the intended investment objectives will be achieved. Past performance of a security may or may not be sustained in future and is no indication of future performance. A security investment return and an investor's principal value will fluctuate so that, when redeemed, an investor's shares may be worth more or less than their original cost. A security's current investment performance may be lower or higher than the investment performance noted within the report.

The quantitative equity ratings are not statements of fact. Morningstar does not guarantee the completeness or accuracy of the assumptions or models used in determining the quantitative equity ratings. In addition, there is the risk that the price target will not be met due to such things as unforeseen changes in demand for the company's products, changes in management, technology, economic development, interest rate development, operating and/or material costs, competitive pressure, supervisory law, exchange rate, and tax rate. For investments in foreign markets there are further risks, generally based on exchange rate changes or changes in political and social conditions.

A change in the fundamental factors underlying the quantitative equity ratings can mean that the valuation is subsequently no longer accurate.

For more information about Morningstar's quantitative methodology, please visit http://global.morningstar.com/equitydisclosures.

Wells Fargo & Co WFC (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★★ 30 Nov 2020 22:18, UTC	27.35 USD 30 Nov 2020	45.00 USD 15 Oct 2020 05:24, UTC	0.61	4.29 30 Nov 2020	1.46 30 Nov 2020	113.08 30 Nov 2020	Banks - Diversified	Poor

General Disclosure

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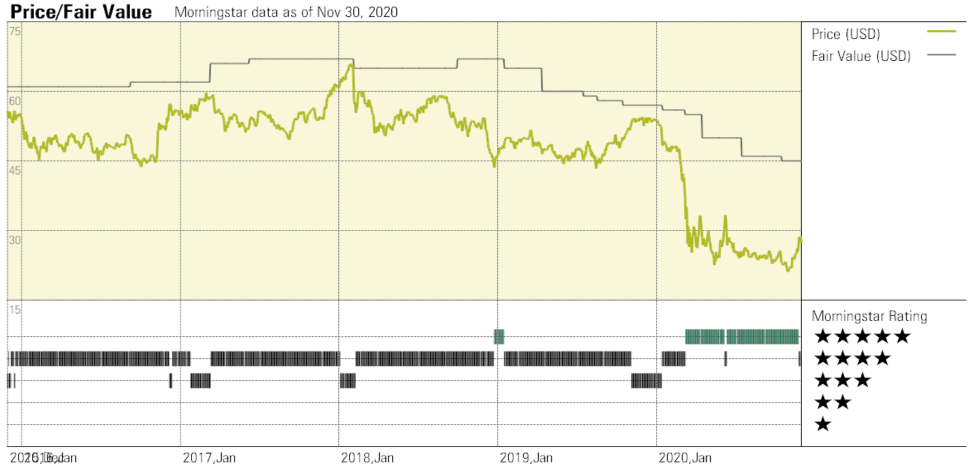

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